



**SECURITIES AND EXCHANGE COMMISSION**  
**[Release No. 34-72138; File No. SR-NYSEArca-2014-23]**

**Self-Regulatory Organizations; NYSE Arca, Inc.; Order Approving a Proposed Rule Change to List and Trade Shares of the iShares Interest Rate Hedged Corporate Bond ETF and iShares Interest Rate Hedged High Yield Bond ETF Under NYSE Arca Equities Rule 8.600**

May 9, 2014

**I. Introduction**

On March 19, 2014, NYSE Arca, Inc. (“Exchange” or “NYSE Arca”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1)<sup>1</sup> of the Securities Exchange Act of 1934 (“Exchange Act”)<sup>2</sup> and Rule 19b-4 thereunder,<sup>3</sup> a proposed rule change to list and trade shares (“Shares”) of the iShares Interest Rate Hedged Corporate Bond ETF and iShares Interest Rate Hedged High Yield Bond ETF (each, a “Fund” and collectively, the “Funds”). The proposed rule change was published for comment in the Federal Register on March 28, 2014.<sup>4</sup> The Commission received no comments on the proposal. This order approves the proposed rule change.

**II. Description of the Proposed Rule Change**

The Exchange proposes to list and trade the Shares under NYSE Arca Equities Rule 8.600, which governs the listing and trading of Managed Fund Shares on the Exchange. The Shares will be offered by iShares U.S. ETF Trust (“Trust”). The Trust is registered with the

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<sup>1</sup> 15 U.S.C.78s(b)(1).

<sup>2</sup> 15 U.S.C. 78a.

<sup>3</sup> 17 CFR 240.19b-4.

<sup>4</sup> See Securities Exchange Act Release No. 71778 (March 24, 2014), 79 FR 17585 (“Notice”).

Commission as an open-end management investment company.<sup>5</sup> BlackRock Fund Advisors (“BFA”) will serve as the investment adviser to the Funds (“Adviser”). BlackRock Investments, LLC will be the principal distributor of the Funds’ Shares. State Street Bank and Trust Company will serve as the administrator, custodian, and transfer agent for the Funds. The Exchange represents that the Adviser is not registered as a broker-dealer, but is affiliated with multiple broker-dealers and has implemented a fire wall with respect to its broker-dealer affiliates regarding access to information concerning the composition of and changes to each Fund’s portfolio.<sup>6</sup>

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<sup>5</sup> The Trust is registered under the 1940 Act. On August 22, 2013, the Trust filed with the Commission post-effective amendments on Form N-1A under the Securities Act of 1933 (15 U.S.C. 77a) and under the 1940 Act relating to the iShares Interest Rate Hedged Corporate Bond ETF (the “Corporate Bond Registration Statement”) and the iShares Interest Rate Hedged High Yield Bond ETF (the “High Yield Registration Statement” and together with the Corporate Bond Registration Statement, the “Registration Statements”) (File Nos. 333-179904 and 811-22649). In addition, the Exchange states that the Commission has issued an order granting certain exemptive relief to the Trust under the 1940 Act. See Investment Company Act Release No. 29571 (File No. 812-13601) (“Exemptive Order”).

<sup>6</sup> See Commentary .06 to NYSE Arca Equities Rule 8.600. The Exchange represents that in the event (a) the Adviser or any sub-adviser registers as a broker-dealer or becomes newly affiliated with a broker-dealer, or (b) any new adviser or sub-adviser is a registered broker-dealer or becomes affiliated with a broker-dealer, it will implement a fire wall with respect to its relevant personnel or its broker-dealer affiliate regarding access to information concerning the composition of or changes to a Fund’s portfolio, and will be subject to procedures designed to prevent the use and dissemination of material non-public information regarding a Fund’s portfolio.

The Exchange has made the following representations and statements regarding the Funds.<sup>7</sup>

iShares Interest Rate Hedged Corporate Bond ETF

The Fund will seek to mitigate the interest rate risk of a portfolio composed of U.S. dollar-denominated, investment grade corporate bonds. The Fund will seek to achieve its investment objective by investing, under normal circumstances,<sup>8</sup> at least 80% of its net assets in U.S. dollar-denominated investment-grade bonds, in one or more investment companies (exchange-traded and non-exchange-traded funds) that principally invest in investment-grade bonds,<sup>9</sup> in U.S. Treasury securities (or cash equivalents), and by taking short positions in U.S. Treasury futures and other interest rate futures contracts.

The Fund will attempt to mitigate interest rate risk primarily through the use of U.S. Treasury futures contracts. The Fund may also take short positions in other interest rate futures contracts, including but not limited to, Eurodollar and Federal Funds futures. The Fund will invest only in futures contracts that are traded on an exchange that is a member of the

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<sup>7</sup> Additional information regarding the Trust, the Funds, and the Shares, investment strategies, investment restrictions, risks, net asset value (“NAV”) calculation, creation and redemption procedures, fees, portfolio holdings, disclosure policies, distributions, and taxes, among other information, is included in the Notice and the Registration Statement, as applicable. See Notice and Registration Statement, supra notes 4 and 5, respectively.

<sup>8</sup> The term “under normal circumstances” includes, but is not limited to, the absence of extreme volatility or trading halts in the equity markets or the financial markets generally; operational issues causing dissemination of inaccurate market information; or force majeure type events such as systems failure, natural or man-made disaster, act of God, armed conflict, act of terrorism, riot or labor disruption or any similar intervening circumstance.

<sup>9</sup> Initially, the Fund intends to invest a substantial portion of its assets in the iShares iBoxx \$ Investment Grade Corporate Bond ETF (the “Underlying Corporate Bond Fund”).

Intermarket Surveillance Group (“ISG”) or with which the Exchange has in place a comprehensive surveillance sharing agreement.

#### iShares Interest Rate Hedged High Yield Bond ETF

The Fund will seek to mitigate the interest rate risk of a portfolio composed of U.S. dollar-denominated, high yield corporate bonds. The Fund will seek to achieve its investment objective by investing, under normal circumstances, at least 80% of its net assets in U.S. dollar-denominated high yield corporate bonds, in one or more investment companies (exchange-traded and non-exchange-traded funds) that principally invest in high yield bonds, in U.S. Treasury securities (or cash equivalents),<sup>10</sup> and by taking short positions in U.S. Treasury futures and other interest rate futures contracts.

The Fund will attempt to mitigate interest rate risk primarily through the use of U.S. Treasury futures contracts. The Fund may also take short positions in other interest rate futures contracts, including but not limited to, Eurodollar and Federal Funds futures. The Fund will invest only in futures contracts that are traded on an exchange that is a member of the ISG or with which the Exchange has in place a comprehensive surveillance sharing agreement.

#### Other Investments

While each Fund, under normal circumstances, will invest at least 80% of its net assets in its investments as described above, a Fund may directly invest in certain other investments, as described below.

Each Fund may invest in repurchase and reverse repurchase agreements. A repurchase agreement is an instrument under which the purchaser (i.e., a Fund or an Underlying Fund)

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<sup>10</sup> Initially, the Fund intends to invest a substantial portion of its assets in the iShares iBoxx \$ High Yield Corporate Bond ETF (the “Underlying High Yield Bond Fund” and together with the Underlying Corporate Bond Fund, the “Underlying Funds”).

acquires the security and the seller agrees, at the time of the sale, to repurchase the security at a mutually agreed upon time and price, thereby determining the yield during the purchaser's holding period. Reverse repurchase agreements involve the sale of securities with an agreement to repurchase the securities at an agreed-upon price, date and interest payment and have the characteristics of borrowing.

Each Fund may invest in money market instruments on an ongoing basis to provide liquidity or for other reasons. Money market instruments are generally short-term investments that may include but are not limited to: (i) Shares of money market funds (including those advised by BFA or otherwise affiliated with BFA); (ii) obligations issued or guaranteed by the U.S. government, its agencies or instrumentalities (including government-sponsored enterprises); (iii) negotiable certificates of deposit, bankers' acceptances, fixed-time deposits and other obligations of U.S. and non-U.S. banks (including non-U.S. branches) and similar institutions; (iv) commercial paper rated, at the date of purchase, "Prime-1" by Moody's® Investors Service, Inc., "F-1" by Fitch Inc., or "A-1" by Standard & Poor's®, or if unrated, of comparable quality as determined by BFA; (v) non-convertible corporate debt securities (e.g., bonds and debentures) with remaining maturities at the date of purchase of not more than 397 days and that satisfy the rating requirements set forth in Rule 2a-7 under the 1940 Act; and (vi) short-term U.S. dollar-denominated obligations of non-U.S. banks (including U.S. branches) that, in the opinion of BFA, are of comparable quality to obligations of U.S. banks which may be purchased by a Fund. Any of these instruments may be purchased on a current or forward-settled basis. Time deposits are non-negotiable deposits maintained in banking institutions for specified periods of time at stated interest rates.

Each Fund may invest in options that are traded on a U.S. or non-U.S. exchange and that reference U.S. Treasury securities. To the extent that a Fund invests in options, not more than 10% of such investment would be in options whose principal trading market is not a member of ISG or is a market with which the Exchange does not have a comprehensive surveillance sharing agreement.

Each Fund or the Underlying Funds may invest in debt securities of non-U.S. issuers and may invest in privately-issued debt securities.

### III. Discussion and Commission Findings

After careful review, the Commission finds that the Exchange's proposal to list and trade the Shares is consistent with the Exchange Act and the rules and regulations thereunder applicable to a national securities exchange.<sup>11</sup> In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Exchange Act,<sup>12</sup> which requires, among other things, that the Exchange's rules be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest. The Commission notes that the Funds and the Shares must comply with the requirements of NYSE Arca Equities Rule 8.600 to be listed and traded on the Exchange.

The Commission finds that the proposal to list and trade the Shares on the Exchange is consistent with Section 11A(a)(1)(C)(iii) of the Exchange Act,<sup>13</sup> which sets forth Congress'

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<sup>11</sup> In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition and capital formation. See 15 U.S.C. 78c(f).

<sup>12</sup> 15 U.S.C. 78f(b)(5).

<sup>13</sup> 15 U.S.C. 78k-1(a)(1)(C)(iii).

finding that it is in the public interest and appropriate for the protection of investors and the maintenance of fair and orderly markets to assure the availability to brokers, dealers, and investors of information with respect to quotations for and transactions in securities. Quotation and last-sale information for the Shares and the shares of the Underlying Funds and any ETFs held by each Fund will be available via the Consolidated Tape Association high-speed line, quotation and last sale information for exchange-listed options contracts will be available via the Options Price Reporting Authority. The intra-day, closing and settlement prices of exchange-traded portfolio assets, including investment companies, money market instruments, futures and options will be readily available from the securities exchanges and futures exchanges trading such securities and futures, as the case may be, automated quotation systems, published or other public sources, or on-line information services such as Bloomberg or Reuters. Such price information on fixed income portfolio securities, including money market instruments, and other Fund assets traded in over-the-counter markets including bonds and money market instruments is available from major broker-dealer firms or market data vendors, as well as from automated quotation systems, published or other public sources, or online information services. Information regarding market price and trading volume of the Shares will be continually available on a real-time basis throughout the day on brokers' computer screens and other electronic services.<sup>14</sup> NYSE Arca expects that information regarding the previous day's closing price and trading volume information for the Shares will be published daily in the financial section of newspapers.<sup>15</sup>

The Indicative Optimized Portfolio Value ("IOPV"), which is the Portfolio Indicative Value as defined in NYSE Arca Equities Rule 8.600(c)(3), will be widely disseminated at least

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<sup>14</sup> See id.

<sup>15</sup> See id. at 17590.

every 15 seconds during the Core Trading Session by one or more major market data vendors.<sup>16</sup>

The net asset value (“NAV”) of each Fund normally will be determined once each business day, generally as of the regularly scheduled close of business of the New York Stock Exchange (“NYSE”) (normally 4:00 p.m., Eastern time) on each day that the NYSE is open for trading.<sup>17</sup>

The Funds’ website will include a form of the prospectus for each Fund and additional quantitative information updated on a daily basis, including, (1) the prior business day’s reported closing price, NAV, and mid-point of the bid/ask spread at the time of calculation of such NAV (“Bid/Ask Price”),<sup>18</sup> and a calculation of the premium and discount of the Bid/Ask Price against the NAV, and (2) data in chart format displaying the frequency distribution of discounts and premiums of the daily Bid/Ask Price against the NAV, within appropriate ranges, for each of the four previous calendar quarters.<sup>19</sup>

Further, the Commission believes that the proposal to list and trade the Shares is reasonably designed to promote fair disclosure of information that may be necessary to price the Shares appropriately and to prevent trading when a reasonable degree of transparency cannot be assured. On each business day, before commencement of trading in Shares in the Core Trading Session on the Exchange, each Fund will disclose on its website the Disclosed Portfolio, as

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<sup>16</sup> See Notice, supra note 4, 79 FR at 17590. The IOPV calculations will be estimates of the value of a Fund’s NAV per Share using market data converted into U.S. dollars at the current currency rates. The IOPV price will be based on quotes and closing prices from the securities’ local market and may not reflect events that occur subsequent to the local market’s close. The quotations of certain Fund holdings may not be updated during U.S. trading hours if such holdings do not trade in the United States. See id.

<sup>17</sup> See id. at 17589.

<sup>18</sup> The Bid/Ask Price of a Fund will be determined using the mid-point of the highest bid and the lowest offer on the Exchange as of the time of calculation of a Fund’s NAV. The records relating to Bid/Ask Prices will be retained by the Funds and their service providers. See id.

<sup>19</sup> See id.



defined in NYSE Arca Equities Rule 8.600(c)(2), that will form the basis for such Fund's calculation of NAV at the end of the business day.<sup>20</sup> The Commission notes that the Exchange will obtain a representation from the issuer of the Shares that the NAV per Share of each Fund will be calculated daily and that the NAV and the Disclosed Portfolio will be made available to all market participants at the same time.<sup>21</sup> In addition, a basket composition file, which will include the security names and share quantities required to be delivered in exchange for each Fund's Shares, together with estimates and actual cash components, will be publicly disseminated daily prior to the opening of the New York Stock Exchange via the National Securities Clearing Corporation.<sup>22</sup> The basket will represent one Creation Unit of Shares of the Fund. Further, the Commission notes that the Reporting Authority that provides the Disclosed Portfolio must implement and maintain, or be subject to, procedures designed to prevent the use and dissemination of material non-public information regarding the actual components of the portfolio.<sup>23</sup> The Exchange represents that the Adviser is affiliated with multiple broker-dealers and has implemented a fire wall with respect to such broker-dealers regarding access to information concerning the composition and/or changes to a portfolio, and will be subject to

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<sup>20</sup> See id. at 17589. On a daily basis, each Fund will disclose for each portfolio security or other financial instrument of the Fund the following information on the Fund's website: ticker symbol (if applicable), name of security or financial instrument, number of shares (if applicable) and dollar value of securities and financial instruments held in the portfolio, and percentage weighting of the security and financial instrument in the portfolio. The website information will be publicly available at no charge. Under accounting procedures to be followed by the Fund, trades made on the prior business day ("T") will be booked and reflected in NAV on the current business day ("T+1"). Accordingly, the Funds will be able to disclose at the beginning of the business day the portfolio that will form the basis for the NAV calculation at the end of the business day. See id.

<sup>21</sup> See id. at 17588.

<sup>22</sup> See id. at 17589.

<sup>23</sup> See NYSE Arca Equities Rule 8.600(d)(2)(B)(ii).

procedures designed to prevent the use and dissemination of material non-public information regarding the portfolio.<sup>24</sup> The Exchange has a general policy prohibiting the distribution of material, non-public information by its employees.

With respect to trading halts, the Exchange may consider all relevant factors in exercising its discretion to halt or suspend trading in the Shares of the Funds.<sup>25</sup> Trading in Shares of a Fund will be halted if the circuit breaker parameters in NYSE Arca Equities Rule 7.12 have been reached. Trading also may be halted because of market conditions or for reasons that, in the view of the Exchange, make trading in the Shares inadvisable. These may include: (1) The extent to which trading is not occurring in the securities and/or the financial instruments comprising the Disclosed Portfolio of a Fund; or (2) whether other unusual conditions or circumstances detrimental to the maintenance of a fair and orderly market are present. Trading in the Shares will be subject to NYSE Arca Equities Rule 8.600(d)(2)(D), which sets forth circumstances under which Shares of a Fund may be halted. If the IOPV is not being disseminated as required, the Exchange may halt trading during the day in which the interruption occurs; if the interruption persists past the day in which it occurred, the Exchange will halt trading no later than the beginning of the trading day following the interruption.<sup>26</sup> The Exchange will consider the suspension of trading in or removal from listing of the Shares if the IOPV is no longer calculated or available or the Disclosed Portfolio is not made available to all market participants at the same time.<sup>27</sup>

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<sup>24</sup> See supra note 6 and accompanying text.

<sup>25</sup> See NYSE Arca Equities Rule 7.12.

<sup>26</sup> See NYSE Arca Equities Rule 8.600(d)(2)(D).

<sup>27</sup> See NYSE Arca Equities Rule 8.600(d)(2)(C)(ii).

The Exchange has represented that the Shares are deemed to be equity securities, thus rendering trading in the Shares subject to the Exchange's rules governing the trading of equity securities.<sup>28</sup> In support of this proposal, the Exchange has made additional representations, including:

- (1) The Shares will conform to the initial and continuing listing criteria under NYSE Arca Equities Rule 8.600.
- (2) The Exchange's surveillance procedures are adequate to properly monitor Exchange trading of the Shares in all trading sessions and to deter and detect violations of Exchange rules and applicable federal securities laws.<sup>29</sup>
- (3) The Financial Industry Regulatory Authority ("FINRA"), on behalf of the Exchange, will communicate as needed regarding trading in the Shares as well as underlying equity securities, futures, and options contracts held by the Funds with other markets that are members of the ISG and FINRA, on behalf of the Exchange, may obtain trading information regarding trading in the Shares as well as underlying equity securities and futures from such markets and other entities. In addition, the Exchange may obtain information regarding trading in the Shares as well as underlying equity securities, futures, and options contracts held by the Funds from markets and other entities that are members of ISG or with which the Exchange has in place a comprehensive surveillance sharing agreement.<sup>30</sup> In

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<sup>28</sup> See id.

<sup>29</sup> FINRA surveils trading on the Exchange pursuant to a regulatory services agreement. The Exchange is responsible for FINRA's performance under this regulatory services agreement.

<sup>30</sup> For a list of the current members of ISG, see [www.isgportal.org](http://www.isgportal.org).

addition, FINRA, on behalf of the Exchange, is able to access, as needed, trade information for certain fixed income instruments reported to FINRA's Trade Reporting and Compliance Engine.

- (4) The Exchange has appropriate rules to facilitate transactions in the Shares during all trading sessions.
- (5) Prior to the commencement of trading, the Exchange will inform its Equity Trading Permit Holders ("ETP Holders") in an Information Bulletin of the special characteristics and risks associated with trading the Shares. Specifically, the Information Bulletin will discuss the following: (a) The procedures for purchases and redemptions of Shares in Creation Unit Aggregations and that Shares are not individually redeemable; (b) NYSE Arca Equities Rule 9.2(a), which imposes a duty of due diligence on its ETP Holders to learn the essential facts relating to every customer prior to trading the Shares; (c) the risks involved in trading the Shares during the Opening and Late Trading Sessions when an updated IOPV will not be calculated or publicly disseminated; (d) how information regarding the IOPV is disseminated; (e) the requirement that ETP Holders deliver a prospectus to investors purchasing newly issued Shares prior to or concurrently with the confirmation of a transaction; and (f) trading information.
- (6) For initial and continued listing, the Funds will be in compliance with Rule 10A-3 under the Exchange Act,<sup>31</sup> as provided by NYSE Arca Equities Rule 5.3.<sup>32</sup>
- (7) Each Fund's investments will be consistent with its investment objective.

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<sup>31</sup> 17 CFR 240.10A-3.

<sup>32</sup> See Notice, supra note 4, 79 FR at 17588.

- (8) Each Fund may hold up to an aggregate amount of 15% of its net assets in illiquid assets (calculated at the time of investment), including Rule 144A securities deemed illiquid by the Adviser. Each Fund will monitor its portfolio liquidity on an ongoing basis to determine whether, in light of current circumstances, an adequate level of liquidity is being maintained, and will consider taking appropriate steps in order to maintain adequate liquidity if, through a change in values, net assets, or other circumstances, more than 15% of the Fund's net assets are held in illiquid assets.
- (9) A minimum of 100,000 Shares for each Fund will be outstanding at the commencement of trading on the Exchange.

This order is based on all of the Exchange's representations, including those set forth above and in the Notice.

For the foregoing reasons, the Commission finds that the proposed rule change is consistent with the Exchange Act.

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Exchange Act,<sup>33</sup> that the proposed rule change (SR-NYSEArca-2014-23), be, and it hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>34</sup>

**Kevin M. O'Neill,**  
*Deputy Secretary.*

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<sup>33</sup> 15 U.S.C. 78s(b)(2).

<sup>34</sup> 17 CFR 200.30-3(a)(12).